# THEMBISILE MUNICIPALITY

*FINANCIAL STATEMENTS*

**30 JUNE 2004**

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# GENERAL INFORMATION

**MEMBERS OF THE EXECUTIVE COMMITTEE**

| | | |
|---|---|---|
| Councillor | V V Nkosi | Mayor |
| Councillor | LJ Dikgale | |
| Councillor | V G Nkabinde | |
| Councillor | J C Tshabalala | |
| Councillor | P D Ntuli | |
| Councillor | N E Makwakwa | |
| Councillor | A T L Mohapi | |
| Councillor | M G Komane | |

**GRADING OF LOCAL AUTHORITY**

Grade I

**AUDITORS**

The Auditor-General

**BANKERS**

First National Bank, Kwaggafontein, Mpumalanga

**REGISTERED OFFICE**

Municipal Building, Wanderers Avenue, Middelburg, Mpumalanga

**MUNICIPAL MANAGER**

Mr S Masilela

**CHIEF FINANCIAL OFFICER**

Mr R T O Dipone

# FOREWORD

The financial year ended 30 June 2004 can be seen, as a successful period for the Council as well as the community.

In order to adhere to the requirements of the integrated development planning process, required in terms of the Local Government Transitional Act, Second Amendment Act of 1996 (Act 97 of 1996). Consultants were appointed to compile Land Development objectives and Integrated Development Plan. Such documents will assist the Council in identifying the needs of the community and budget accordingly.

The results of the 2003/04 financial period confirm another prosperous year as the year concluded with a nett surplus being achieved.

Finally, I wish to express my thanks to my fellow Councillors, the Executive Committee, Municipal Manager and his staff for their support, co-operation and hard work during the past financial year. It is with such loyalty and dedication that the new year can be met with confidence.

**CLR V V NKOSI**
**MAYOR**

# MANAGER: FINANCE REPORT

The 2003/2004 financial year is the third financial year for the municipality of Thembisile. The former local councils of Mkobola and Kwamhlanga were amalgamated as determined by the Demarcation Board.

The amalgamation process consisted with transferring all the assets and liabilities of the two former local council into the books of account of Thembisile Municipality. A common billing system and accounting system were also established

## 1 OPERATIONAL RESULTS

Details of operating results per department, classification and object of expenditure are included in appendices D and E.

| | Actual 2002/2003 | Actual 2003/2004 | Variance 2002/2003 & 2003/2004 | Budget 2003/2004 | Variance Actual/ Budget 2003/2004 |
|---|---|---|---|---|---|
| | R | R | % | R | % |
| **INCOME** | | | | | |
| Opening surplus | 7 247 133 | 7 912 606 | 9,18 | | |
| Operating income for the year | 14 869 813 | 19 323 886 | 29,96 | 23 358 953 | (23,80) |
| Transfers from previous year | 525 082 | 686 375 | 30,00 | | |
| Closing deficit | - | - | | | |
| **TOTAL** | 22 642 028 | 27 236 492 | | | |
| **EXPENDITURE** | | | | | |
| Opening deficit | 0 | | | | |
| Operating expenditure for the year | 14 729 422 | 21 304 502 | 44,64 | 25 132 367 | 15,23 |
| Closing surplus | 7 912 606 | 6 618 364 | (16,36) | 226 586 | |
| **TOTAL** | 22 642 028 | 27 236 492 | | | |

The increased surplus of 2,821% is as a result of decrease of expenditure of R21 304 502 compared to the budgeted expenditure of R25 132 367.

## 1.1 COMMUNITY SERVICES

| | Actual 2002/2003 | Actual 2003/2004 | Variance 2002/2003 & 2003/2004 | Budget 2003/2004 | Variance Actual/ Budget 2003/2004 |
|---|---|---|---|---|---|
| | R | R | % | R | % |
| Income | 13 956 136 | 18 371 834 | 31,64 | | |
| Expenditure | 12 072 326 | 16 260 141 | 34,69 | | |
| Surplus (Deficit) | 1 883 810 | 2 111 693 | 12,00 | 10 560 690 | 19,96 |
| Surplus (Deficit) as percentage of total income | 12,67 | 10,93 | | | |

## 1.2 SUBSIDIZED SERVICES

| | Actual 2002/2003 | Actual 2003/2004 | Variance 2002/2003 & 2003/2004 | Budget 2003/2004 | Variance Actual/ Budget 2003/2004 |
|---|---|---|---|---|---|
| | R | R | % | R | % |
| Income | 18 988 | 20 560 | 8,28 | | |
| Expenditure | 0 | 0 | | | |
| Surplus (Deficit) | 19 988 | 20 560 | 8,28 | 16 200 | 126,91 |
| Surplus (Deficit) as percentage of total income | 0,13 | 0,11 | | | |

## 1.3 ECONOMICAL SERVICES

| | Actual 2002/2003 | Actual 2003/2004 | Variance 2002/2003 & 2003/2004 | Budget 2003/2004 | Variance Actual/ Budget 2003/2004 |
|---|---|---|---|---|---|
| | R | R | % | R | % |
| Income | 521 155 | 257 041 | (50,68) | | |
| Expenditure | 705 099 | 1 459 722 | 107,02 | | |
| Surplus (Deficit) | (183 944) | (1 202 680) | (553,83) | 1 815 272 | (66,25) |
| Surplus (Deficit) as percentage of total income | (1,24) | | (6,22) | | |

## 1.4 TRADING SERVICES

| | Actual 2002/2003 | Actual 2003/2004 | Variance 2002/2003 & 2003/2004 | Budget 2003/2004 | Variance Actual/ Budget 2003/2004 |
|---|---|---|---|---|---|
| | R | R | % | R | % |
| Income | 471 547 | 674 451 | 43,03 | | |
| Expenditure | 2 050 010 | 3 584 640 | 74,86 | | |
| Surplus (Deficit) | (1 598 463) | (2 910 189) | 84,37 | 8 975 840 | (32,42) |
| Surplus (Deficit) as percentage of total Income | (10,62) | (15,06) | | | |

## 2 CAPITAL EXPENDITURE AND FINANCING

| | Actual 2003/2004 R | Source of Finance 2003/2004 |
|---|---|---|
| Infrastructure | 18 541 184 | District, and Provincial Government |
| Equipment | - | |
| Furniture | 681 992 | Own |
| **Total** | **19 223 176** | |

## 3 EXTERNAL LOANS, INVESTMENTS AND LIQUIDITY

No loans were obtained for the 2003/2004 financial year to finance capital expenses.

Investments amounted to R8 559 516 on 30 June 2004 and cash amounted to R3 635 913. (2002/03:- R8 154 209 and R5 776 451 respectively).

4 **FUNDS**

On 30 June 2004 the Capital Development Fund amounted to R683 426 (2002/2003:- R478 586)

On 30 June 2004 provisions amounted to R3 727 704. (2002/2003:- R2 649 051)

On 30 June 2004, Housing Development Fund amounted to R1 477 136 (2002/2003:- R1 136 619)

5 **ACKNOWLEDGMENT**

I thank the Municipal Manager and Head of Departments for their support during the past financial year. A special word of thanks to my staff for their loyalty and support during the year under review.

**R T O DIPONE**
**CHIEF FINANCIAL OFFICER**

# ACCOUNTING POLICY

## 1 BASIS OF PRESENTATION

1.1 These financial statements have been prepared so as to conform to standards laid down by the Institute of Municipal Finance Officers in its Code of Practice for the Accountant of Local Governments (1992) and the Report on the Standardisation of the Financial Statements of Local Governments (4th edition, as amended).

1.2 The financial statements are prepared on the historical cost basis, adjusted for capital expenditure, as more fully detailed in Note 2 (two). The accounting policies are consistent with those applied in the previous year, except if otherwise indicated.

1.3 The financial statements are prepared on the accrual principle:

- Income is accrued when available to finance operations. Certain direct revenue is accrued when received.
- Expenditure is accrued in the year it is incurred.

## 2 FIXED ASSETS

2.1 Fixed assets are stated:

At historical cost, or at valuation (based on the market price at date of acquisition), where assets have been obtained by grant or donation.

While they are in existence and fit for use, except in the case of bulk assets, which are written off at the end of the estimated life as determined by the Treasurer.

2.2 Depreciation

The balance shown against the heading *"Loans redeemed and other capital receipts"* in the Notes to be balance sheet is tantamount to a provision for depreciation, however, certain structural differences do exist. By way of these *"provisions"* assets are written down over their estimated life span. Apart from advances from various Council funds, assets may also be acquired through –

- appropriations from income, where the full cost of the asset forms an immediate and direct charge against operating income and therefore it is unnecessary to make any further provision for depreciation;
- grant or donation, where the amount that representing the value of such grant or donation is immediately credited to the *"Loans redeemed and other capital receipts"* account.

2.2 Capital assets are financed from different sources, including external loans, operational revenue and internal advance payments. These loans and advances are repaid within the estimated life span of the assets, which are financed from such loans and advance payments. Interest at the rate that prevails at the time of granting the advance payment is debited to the relevant service.

## 3 FUNDS AND RESERVES

**Capital Development Fund:**

The Capital Development Fund Ordinance, No. 9 of 1978, requires a minimum contribution of 1,0% of the defined income of a Local Authority for the immediately preceding financial year.

## 4 INVESTMENTS

Investments are reflected against the lowest cost or market value if there is a continual decline in value. Investments are being done in accordance with the policy of the Council.

5 AMALGAMATIONS

The local councils of Kwamhlanga and Mkobola amalgamated to form the municipality of Thembisile, as determined by the Demarcation Board.

## THEMBISILE MUNICIPALITY

## BALANCE SHEET ON 30 JUNE 2004

| CAPITAL EMPLOYED | Notes | June 2004 | June 2003 |
|---|---|---|---|
| FUNDS AND RESERVES | | 693,426 | 478,586 |
| Accumulated funds | 1 | 693,426 | 478,586 |
| Reserves | 2 | - | |
| UNAPPROPRIATED SURPLUS | | 6,618,364 | 7,912,606 |
| | | 7,391,789 | 8,391,192 |
| TRUSTFUNDS | 3 | 1,477,136 | 1,139,619 |
| LONGTERM LIABILITIES | 4 | - | |
| | | 8,778,926 | 9,530,811 |
| EMPLOYMENT OF CAPITAL | | | |
| FIXED ASSETS | 5 | - | - |
| INVESTMENTS | 6 | 8,559,516 | 8,154,209 |
| DEFERRED CHARGES | 10 | - | - |
| LONGTERM DEBTORS | 7 | - | - |
| NETT CURRENT ASSETS (LIABILITIES) | | 219,410 | 1,376,602 |
| CURRENT ASSETS | | 5,510,048 | 6,942,475 |
| Material | 8 | - | |
| Bank | 22 | 3,635,913 | 5,776,451 |
| Debtors | 9 | 1,874,135 | 1,163,024 |
| CURRENT LIABILITIES | | 5,290,638 | 5,565,873 |
| Provisions | 11 | 336,840 | 487,533 |
| Creditors | 12 | 4,953,798 | 5,078,340 |
| Accumulated Shortage | | | |
| Bank Overdraft | 22 | | |
| | | 8,778,926 | 9,530,811 |

Signed

S Masilela
Acting Municipal Manager

DATE: .....

R T O DIPONE
Manager: Finance

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## Income Statement for the year ended 30 June 2004

| 2002/2003 Actual Income | 2002/2003 Actual Expenditure | 2002/2003 Actual Surplus (Deficit) | SERVICE | 2003/2004 Actual Income | 2003/2004 Actual Expenditure | 2003/2004 Actual Surplus (Deficit) | 2003/2004 Budget Surplus (Deficit) |
|---|---|---|---|---|---|---|---|
| 14,398,267 | 12,679,412 | 1,718,855 | RATES AND GENERAL SERVICES | 18,649,435 | 17,719,863 | 929,573 | (8,749,218) |
| 13,858,124 | 11,974,313 | 1,883,811 | Community Services | 18,371,834 | 16,260,141 | 2,111,693 | (10,580,690) |
| 18,988 | - | 18,988 | Subsidised Services | 20,560 | - | 20,560 | 16,200 |
| 521,155 | 705,099 | (183,944) | Economical Services | 257,041 | 1,459,722 | (1,202,680) | 1,815,272 |
| - | - | - | HOUSING SERVICES | - | - | - | - |
| 471,546 | 2,050,010 | (1,578,464) | TRADING SERVICES | 674,451 | 3,584,640 | (2,910,189) | 8,975,804 |
| | | | Electricty | - | - | - | 1,100,965 |
| 471,546 | 2,050,010 | (1,578,464) | Water | 674,451 | 3,584,640 | (2,910,189) | 7,874,839 |
| 14,869,813 | 14,729,422 | 140,391 | TOTAL | 19,323,886 | 21,304,502 | (1,980,616) | 226,586 |
| | | 525,082 | Prior year adjustment | | | 686,375 | |
| | | | Appropriation for the year (Refer to Note 17) | | | | |
| | | 665,473 | Nett Surplus / (Deficit) for the year | | | (1,294,242) | |
| | | 7,247,133 | Unappropriated Surplus / (Deficit) at the beginning of the year | | | 7,912,606 | |
| | | 7,912,606 | Unappropriated Surplus / (Deficit) at the end of the year | | | 6,618,364 | |

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## Cash Flow Statement for the year ended 30 June 2004

| | | 2003/2004 | 2002/2003 |
|---|---|---|---|
| **CASH RETAINED FROM OPERATIONAL ACTIVITIES** | | | |
| Cash generated by operations | 18 | (730,561) | 155,026 |
| Investment income | 16 | 921,517 | 1,247,164 |
| (Increase) / decrease in operating capital | 19 | (832,653) | 2,679,300 |
| | | (641,698) | 4,081,490 |
| Less: External interest paid | 16 | - | - |
| Cash available out of operations | | (641,698) | 4,081,490 |
| Cash Contributions | | 18,129,643 | |
| **CASH UTILISED IN INVESTEMENT ACTIVITIES** | | | |
| Investment in fixed assets | C | (19,223,176) | (308,420) |
| **NETT CASH FLOW** | | **(1,735,231)** | **3,773,070** |
| **CASH EFFECTS OF FINANCING ACTIVITIES** | | | |
| Increase / (decrease) in longterm loans | 20 | - | - |
| (Increase) / decrease in cash investments | 21 | (405,307) | (747,880) |
| (Increase) / decrease in cash | 22 | 2,140,538 | (3,025,189) |
| **NETT CASH (GENERATED) / UTILISED** | | 1,735,231 | (3,773,069) |

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# NOTES TO THE FINANCIAL STATEMENTS ON 30 JUNE 2004

| | June 2004 | June 2003 |
|---|---|---|
| | R | R |
| **1. STATUTORY FUNDS** | | |
| Capital Development Fund | - | - |
| Land trust fund | 683,426 | 478,585 |
| | 683,426 | 478,585 |
| **2. RESERVES** | | |
| Maintenance Reserve Fund | - | - |
| | - | - |
| **3. TRUST FUNDS** | | |
| Housing development fund | 1,477,136 | 1,139,619 |
| | 1,477,136 | 1,139,619 |
| **4. LONGTERM LIABILITIES** | | |
| Local Registered Stocks | - | - |
| Annuity Loans | - | - |
| Government Loans | - | - |

(Refer to annexure B for more detail regarding longterm liabilities)

**GOVERNMENT LOANS**
None

**LOCAL REGISTERED STOCKS**
None

**ANNUITY LOANS**
None

| | | Jun 2004 | Jun 2003 |
|---|---|---|---|
| 5 | **FIXED ASSETS** | | |
| | Fixed assets at the beginning of the year | 36,640,091 | 33,838,287 |
| | Fixed assets bought or received during the year | 19,223,176 | 2,801,804 |
| | Less: Assets written off, transferred or sold during the year | 213,132 | - |
| | Total Fixed Assets | 55,650,135 | 36,640,091 |
| | Less: Loans redeemed and other capital income | 55,650,135 | 36,640,091 |
| | Nett Fixed Assets | - | - |
| | (Refer to annexure C for additional information) | | |
| 6 | **INVESTMENTS** | | |
| | Balance brought forward | 8,154,209 | 7,406,329 |
| | Investments made | 425,017 | 754,209 |
| | Investments Realised | (19,710) | (6,329) |
| | | **8,559,516** | **8,154,209** |
| | Average rate of return on investments | | |
| 7 | **LONG TERM DEBTORS** | | |
| | Vehicle loans | - | - |
| | Firearm Loans | - | - |
| | | - | - |
| 8 | **MATERIAL** | | |
| | Material | - | - |
| 9 | **DEBTORS** | | |
| | Consumer debtors | 4,614,291 | 3,255,863 |
| | Less: Provision for bad debts | (3,390,864) | (2,161,518) |
| | Sundry | 650,708 | 71,679 |
| | | **1,874,136** | **1,166,024** |

| | | Jun 2004 | Jun 2003 |
|---|---|---|---|
| 10 | **DEFERRED CHARGES** | | |
| | Development costs | - | - |
| | **Proceeds:** | | |
| | Sale of erven | - | - |
| | Interest | - | - |
| | Township development cost | - | - |
| | | - | - |
| 11 | **PROVISIONS** | | |
| | Leave owned | 185,497 | 336,190 |
| | Loss in rental | - | - |
| | Bad Debt | | - |
| | Audit fees | 151,343 | 151,343 |
| | | **336,840** | **487,533** |
| 12 | **CREDITORS** | | |
| | Sundry creditors | 4,179,076 | 4,639,207 |
| | Deposits | 774,723 | 785,166 |
| | Consumers | 10,320 | 439,133 |
| | Other | 764,403 | 346,033 |
| | | **4,953,798** | **5,424,373** |
| 13 | **PROPERTY RATES** | | |
| | No property rates are charged | | |

| | | Jun 2004 | Jun 2003 |
|---|---|---|---|
| 14 | **COUNCILLORS REMUNERATION** | | |
| | Mayor's allowance | - | - |
| | Deputy Mayor/s allowance | - | - |
| | Management committee allowance | - | - |
| | Councillor's allowance | 4,411,926 | 4,044,882 |
| | Pension fund contribution | - | - |
| | | **4,411,926** | **4,044,882** |
| 15 | **AUDIT COSTS** | | |
| | Audit fees / provision | - | 151,343 |
| 16 | **FINANCING TRANSACTIONS** | | |
| | External interest | | |
| | * Interest earned | **921,517** | **1,247,164** |
| | * Interest paid | - | - |
| | Capital cost debited against the operating account | | |
| | Interest | - | - |
| | * External | - | - |
| | * Internal | - | - |
| | Redemption | - | - |
| | * External | - | - |
| | * Internal | - | - |
| | | **921,517** | **1,247,164** |
| 17 | **APPROPRIATION** | | |
| | Appropriation account | | |
| | Unappropriated surplus (deficit) at the beginning of the year | 7,912,606 | 7,247,133 |
| | Operating gain (Deficit) for the year | (1,980,616) | 140,391 |
| | Appropriation for the year | 686,375 | 525,082 |
| | Amendments previous years | - | 525,082 |
| | Unappropriated surplus at the end of the year | **6,618,364** | **7,912,606** |
| | **Operating account:** | | |
| | Fixed assets | 1,093,533 | 308,420 |
| | Contributions to: | | |
| | Capital development fund | 77,672 | 146,464 |
| | Other funds | 93,254 | 95,839 |
| | | **1,264,458** | **550,723** |

| | | Jun 2004 | Jun 2003 |
|---|---|---|---|
| 18 | **CASH GENERATED BY OPERATIONS** | | |
| | Operating gain (deficit) for the year | (1,980,616) | 140,391 |
| | Amendments i.r.o. previous years operating transactions | 686,375 | 525,082 |
| | Appropriations debited against income | 1,635,890 | 550,723 |
| | *Capital development fund | 204,840 | 146,464 |
| | *Other funds | 337,517 | 95,839 |
| | *Fixed assets | 1,093,533 | 308,420 |
| | Capital costs | - | - |
| | Interest paid: | | |
| | * To internal funds | - | |
| | * To external funds | | |
| | Redemption of | - | - |
| | *Internal advances | | |
| | *External loans | | |
| | Investment income (operating) | (921,517) | (1,247,164) |
| | Grants and subsidies from State and Public | - | 122,742 |
| | Non-operating income out of funds | | |
| | Non-operating expenditure charged against | | |
| | * Accrued funds | (150,693) | 63,252 |
| | * Trust funds | (730,561) | 155,026 |
| | * Reserves | | |
| | * Provisions | | |

| | | Jun 2004 | Jun 2003 |
|---|---|---|---|
| 19 | **INCREASE / (DECREASE) IN OPERATING CAPITAL** | | |
| | (Increase)decrease in material | - | - |
| | (Increase)(decrease in debtors | (708,112) | (470,677) |
| | Increase (decrease) in creditors | (124,542) | 3,149,977 |
| | | (832,653) | 2,679,300 |
| 20 | **INCREASE / (DECREASE) IN LONG TERM LOANS** | | |
| | Loans taken up | - | - |
| | Loans repaid | - | - |
| | | - | - |
| 21 | **(INCREASE) / DECREASE IN CASH INVESTMENTS** | | |
| | Investments made | 425,017 | 754,209 |
| | Investments realised | 19,710 | 6,329 |
| | | (405,307) | (2,987,485) |
| 22 | **(INCREASE) / DECREASE OF CASH ON HAND** | | |
| | Cash balance: Opening Balance | 5,776,451 | 2,751,262 |
| | Less: Cash balance: Closing Balance | (3,635,913) | (5,776,451) |
| | | 2,140,538 | (3,025,189) |

**23 RETIREMENT BENEFITS**

Only the Town Clerk is a member of the Municipal Gratuity Fund.
No other councillor or employee are a member of a pension fund.

**24 CAPITAL OBLIGATIONS**

None

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| | | Jun 2004 | Jun 2003 |
|---|---|---|---|
| 25 | **CONDITIONAL LIABILITIES AND CONTRACTUALLY OBLIGATIONS** | | |
| | Guarantees given in respect of housing loans to financial institutions to employees | - | |
| | Provision for leavepay | - | 336,190 |
| | | - | 336,190 |
| | Provision for leavepay is not in accordance with managements assessment | | |
| 26 | **CAPITAL DEVELOPMENT FUND** | | |
| | **Outstanding advances to borrowing accounts:** | | |
| | Accrued fund | 683,426 | 478,585 |
| | Less: External Investments | 683,426 | 478,585 |
| | **Outstanding Advances** | - | - |
| | (Refer to annexure B for further detail) | | |